

## Message Text

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PAGE 01 PEKING 00902 120607Z

21

ACTION EA-10

INFO OCT-01 ISO-00 NSCE-00 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 OMB-01 SAJ-01 SAM-01 EB-07 COME-00 TRSE-00

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R 120414Z MAY 75

FM USLO PEKING

TO SECSTATE WASHDC 3733

INFO AMCONSUL HONG KONG

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E.O.11652: N/A

TAGS: ETRD, BEXP, US, CH

SUBJECT: STATUS OF GE NEGOTIATIONS ON POSSIBLE SALE OF GAS TURBINE  
MANUFACTURING FACILITY TO CHINA

REFS: A. PEKING 400 B. HONG KONG 2658

1. AT CANTON TRADE FAIR, GE REPRESENTATIVE E.G. NAYLOR PROVIDED USLO OFFICER WITH ADDITIONAL BACKGROUND ON THE STATUS OF GE'S NEGOTIATIONS WITH THE CHINA NATIONAL TECHNICAL IMPORT CORPORATION (TECHIMPORT) ON THE POSSIBLE SALE OF A GAS TURBINE MANUFACTURING FACILITY TO CHINA. AS PREVIOUSLY REPORTED (REFTELS) NEGOTIATIONS HAVE BEEN AT A STANDSTILL OVER THE ISSUE OF HOW TECHNOLOGY INVOLVED IN THE PLANT SALE WOULD BE TRANSFERRED TO THE CHINESE. TECHIMPORT IS DEMANDING A SINGLE TRANSFER OF ALL TECHNOLOGY FOR WHICH IT WOULD PAY A LUMP SUM, WHILE GE PREFERS TO PHASE THE TRANSFER OVER A LONGER PERIOD DURING WHICH THE TECHNOLOGY CAN BE CONTINUALLY UPDATED.

2. ACCORDING TO NAYLOR, THE QUESTION OF WHAT TECHNOLOGY  
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PAGE 02 PEKING 00902 120607Z

WOULD BE TRANSFERRED IS ALSO AT ISSUE. THE CHINESE

REQUEST ALSO INCLUDES CERTAIN TECHNOLOGY (FOR MANUFACTURE OF TURBINE ROTORS AND OTHER PARTS) WHICH GE IS UNWILLING TO MAKE AVAILABLE. GE HAS "MANUFACTURING ASSOCIATE" AGREEMENTS WITH HITACHI, JOHN BROWN AND OTHER FOREIGN FIRMS WHICH DO NOT INCLUDE TRANSFER OF THIS TECHNOLOGY TO THEM, AND G.E. FEARS PROBLEMS WILL DEVELOP WITH THESE ASSOCIATES IF THIS TECHNOLOGY IS SOLD TO THE CHINESE. THE MATTER HAS BEEN REFERRED TO GE'S HIGHEST LEVEL MANAGEMENT WHICH HAS PROMISED THE CHINESE AN ANSWER BY MID-MAY. NAYLOR BELIEVES THE CHINESE WOULD PREFER TO DEAL WITH GE, BUT IS CONCERNED THEY WILL TURN TO ANOTHER SUPPLIER (PROBABLY WESTINGHOUSE) IF HIS FIRM DOES NOT AGREE TO AT LEAST SOME OF THEIR DEMANDS.

3. ANOTHER POINT OF CONTENTION IS GE'S INTEREST IN SELLING COMPLETE TURBINES AND COMPONENTS TO CHINA DURING THE PERIOD IN WHICH THE PLANT IS UNDER CONSTRUCTION. AT PRESENT, THE CHINESE ARE BUYING TURBINES FROM GE'S FOREIGN "ASSOCIATES" AND GE WOULD LIKE TO TAKE OVER THIS BUSINESS AS AN ADDED INCENTIVE TO SELLING THE PRODUCTION FACILITY. THE CHINESE ARE UNWILLING TO AGREE AND FEEL THEY SHOULD BE FREE TO PURCHASE COMPLETE UNITS AND COMPONENTS FROM OTHER SUPPLIERS. BUSH

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